VT Tyndall Real Income Fund

Monthly Commentary | July 2022

TYNDALL

Review

Following the aggressive sell off in markets during June a, perhaps somewhat surprisingly, vigorous bounce developed over the course of July, including in the UK equity market where the MSCI UK Index gained +3.53% for the month. Notwithstanding the still difficult economic and policy backdrop, several explanations were put forward to explain the rally ranging from 'dovish' hints from central banks, signs of inflation rolling over, corporate earnings season performing better than expected and perhaps sentiment was simply too depressed, enabling a rally to take hold.

Economic datapoints continue to signal a material loss in momentum for global activity and that has, finally, started to be reflected in some of the key drivers of the latest inflation surge, most notably in falling oil and other commodity prices, potentially giving hope that inflation will indeed start to cool off relatively soon.

Meanwhile, although the US Federal Reserve went through with a 0.75% increase in interest rates during July, they made it clear that future changes in rates will be 'data dependent' giving some market participants hope that the pace of rate hikes will slow considerably in the near future. The fact that bond yields fell materially during the month added some conviction to that view.

Corporate earnings season started in earnest towards the month end and, whilst a mixed picture as usual, the general feeling is that earnings are currently holding up reasonably well with relatively little, yet at least, of the meaningful weakness that markets have become so worried about of late.

Here in the UK, Boris Johnson finally succumbed to intense pressure and, reluctantly, stepped down as Prime Minister. A leadership contest is now underway between former Chancellor Rishi Sunak and Foreign Secretary Liz Truss. Polling among Conservative Party members consistently shows Truss as the favourite to win which, at least on the face of it, will mean considerably lower taxes in the near term than might otherwise have been the case.

Fund performance / Activity

Following a very difficult month in June, the rollercoaster of recent performance continued in July, but this time with very strong performance for our fund. The portfolio gained +7.23% (share class A GBP Net Accumulation) for the month, materially outperforming both the peer group average gain of +3.83% and the MSCI UK Index gain of +3.53%.

In a complete reversal of the prior month, outperformers were concentrated in the industrial, financial and select consumer sectors and included holdings such as Ashtead, Inchcape, Vesuvius, Intermediate Capital, Bodycote, ITV and Vistry Group.

Negative attribution came predominantly from companies that we do not own performing well, particularly in the consumer staples sector such as Diageo and Unilever. There was also select consumer related weakness in holdings such as Wickes, JD Wetherspoon and DFS Furniture.

We were again reasonably active during the month, introducing 2 new holdings to the portfolio - Dunelm and Howden Joinery. We have owned both of these excellent franchises in the past and have taken the opportunity, following significant share price weakness, to reintroduce them to the fund. We also added to several holdings including Vesuvius, National Express, and Wickes Group.

We made no complete disposals during the month and funded new additions primarily through further profit taking in holdings such as Melrose, Centrica, British American Tobacco and BP.

Market Outlook

Despite it being the height of summer, we are not deliberately being lazy when we say, yet again, that nothing has materially changed in our outlook for markets.

The difficult first half of 2022, driven in no small part by elevated inflation levels, tightening monetary policy, worries about global recession, the war in Ukraine and the ongoing complications from the Covid-19 pandemic, has left investor sentiment, according to many different surveys, at near record low levels.

Meanwhile, the 'facts' on the ground currently do not, in our view at least, warrant the degree of pessimism being shown by investors in general. As we have seen from the latest corporate earnings season, whilst there have been notable 'disappointing' statements, there have plenty of solid reports with steady, if relatively unspectacular, outlook commentary.

Given the degree of pessimism that currently pervades markets it will not, in our view, take much in the way of incremental positive news to allow equity markets to regain their poise and, who knows, perhaps that has started already during July. It could just as equally be a 'bear market rally', as so many are convinced it is, only time will tell.

Regardless of the very near-term outlook, we remain firmly of the view that the collection of companies currently in our portfolio have incredibly strong franchises and are more than capable of withstanding any near-term economic difficulties, should they indeed come to pass. What's more, given the scale of share price falls for many of them recently, they also look exceptionally good value today. As such, we remain extremely enthusiastic for the upside potential for the portfolio over the medium term, and we remain happy to purchase more shares, at increasingly attractive prices, in any further bouts of market weakness.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, August 2nd 2022
Data source (unless otherwise stated): Bloomberg, FE Analytics

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